Emakhazeni Local Municipality
Annual Financial Statements
for the year ended 30 June 2018

General Information

Legal form of entity	Local Municipality
Councillors	
Executive Mayor	Mr. T.D Ngwenya
Speaker	Ms. N.A Mashele
Chief Whipp	Mr. N.T Masha
Mayoral Committee	Ms M. Nkambula (Chairperson Section 80 Infrastructure, Planning and Social Development)
	Mr. S.S Mthimunye (Chairperson Section 80 Finance and Economic Affairs)
	Ms. T.E Scheffers (Chairperson Section 80 Corporate Services)
Councillors	Mr. T.C Ngomane
	Mr. M.P Ntuli
	Mr. X.D Masina
	Ms. A.A Botha
	Mr. S.S Tshabalala
	MR. D.M Scheffers
	Ms. S.I Skhosana
	Ms. R. Ndlovu
	Mr. T.J Duma
Grading of local authority	Grade 2
Accounting Officer	Mrs E.K Tshabalala
Business address	25 Scheepers Street Belfast 1100
Postal address	P.O Box 17 Belfast 1100
Bankers	First National Bank Branch Code: 270351 Account Type: Current Account Account Number: 62028195510
Attorneys	Nomaswazi Shabangu Attorneys Ntuli Noble Inc. B.V Mbungela Attorneys Mmela Mtshweni Attorneys Mnisi Nyemebe Attorneys Ndobela Lamola Attorneys Nkgadima attorneys T.C Rampatla Attorneys Nkosi Nkosana Attorneys Kunene Ramapala
Contact Details	Tel: (013) 253 7600 Email: municipality@emakhazenilm.co.za

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

MFMA	Municipal Finance Management Act
FMG	Finance Management Grant
WSIG	Water Service Infrastructure Grant
MIG	Municipal Infrastructure Grant
INEP	Integrated National Electrification Programme
GRAP	Generally Recognised Accounting Practice
MMC	Member of Executive Council

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, she is supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 7.

The annual financial statements set out on pages 7 to 80, which have been prepared on the going concern basis, were approved by the accounting officer on 30 June 2018 and were signed on its behalf by:

Accounting Officer
Designation

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2018.

Audit Committee Report

Audit committee members and attendance

DRAFT ANNUAL REPORT OF THE AUDIT COMMITTEE FOR 2017/2018 FINANCIAL YEAR

We are pleased to submit the Audit Committee for the year ended 30 June 2018.

1. Background

Emakhazeni Local Municipality opted to be part of the shared Nkangala District Municipality Audit and performance committee. The Audit committee was established in terms of Section 166 of the Municipal Finance Management Act (MFMA), Act 56 of 2003. The Audit committee has adopted its terms of reference.

Statutory requirements

Section 166 of the MFMA stipulates that each municipality must establish an Audit committee. The Audit committee is an independent advisory body that advises council, political office bearers, accounting officer, and the staff of the municipality on the following
* Internal finacial control and internal audit;

* Risk management;

* Accounting policies;

* The adequancy, reliability and accuracy of financial reporting and information;

* Performance management;

* Compliance with the MFMA, the Division of Revenue Act (DORA) and any other applicable legislation;

* Perfomance evaluation;

* Any other issues referred to it by the municipality;

* Review annual financial statements so as to provide authoritative and credible view of the financial position, on overall compliance with MFMA, DORA, etc

* Respond to council on any matter raised by the the Auditor-General (AGSA); and

* Carry out such investigation into financial affairs of the municipality as may be prescribed.

2. Attendance of meetings

Name of member	Ordinary meetings	Performance meetings	Total meetings held	Attendance
Mr. M.A Maphetho-Chairperson (Resigned 31/01/2018)	4	3	7	1
Mr. V.K Chuene (Acting Chairperson)	4	3	7	7
Mr. L. Langalibalele (Contract ended 28/02/2018)(New appointment 01 March 2018)	4	3	7	7
Advocate L. Thubakgale (Contract expired 28/02/2018)	4	3	7	2
Mr. M. Mathabathe	4	3	7	7
Mrs. F. Mudau	4	3	7	2
	24	**18**	**42**	**26**

The following although not members of the Audit and Perfomance Committee (APC), have standing invitation to Audit and Perfomance committee meetings:

- The Accounting Officer;
- The Chief Financial Officer;
- The chairperson of Risk Committee;

Audit Committee Report

The effectiveness of internal control

The system of internal control was not entirely effective during the year under review as compliance with prescribed policies and procedures were lacking in certain instances and this was evident with the investigation of irregular expenditure that was conducted by the Council during the year under review.

The following Internal audit reports are among others that were presented to the Audit Committee
- Audit of quarterly perfomance information;
- Expenditure Management;
- Supply Chain Management;
- ICT audit;
- Governance;
- Leave Management;
- Local Economic development; and

Evaluation of annual financial statements

The Audit and Perfomance Committee (APC), on its meeting held on the 16 August 2018 to discuss the draft annual financial statements and unaudited annual report with the Accounting Officer, before submitting to the Auditor General.

Not reviewed yet. The Audit committee wishes to indicate that it performed a review on the financial statements focusing among others:
- Significant financial reporting adjustments and estimates contained in the Annual Financial Statements
- Claity and completeness of disclosures has been set properly
- Quality and acceptability of and any changes in accounting policies and practice.
- Significant adjustment arising from the audit
- Reasons for major year to fluctuations

The audit and Perfomance Committee (APC) has:
- Further review d the audited financial statements to be included in the Annual Report with the Accounting Officer.
- Reviewed the Auditor General Management report and management response thereof
- Reviewed the municipality compliance with legal and regulatory provision and;
- Reviewed significant adjustments resulting from the audit.

Internal audit

The internal Audit of Emakhazeni Local Municipality is in-house and has discharges its mandate in terms of its charter and managed to execute all projects for 2017/2018 financial year. The Audit and Perfomance Committee (APC) would like to commend the council and management for the dedication in strengthnening Corporate Gorvanance.

The Audit and Perfomance Committee (APC) is of the opinion that Internal Audit unit is operating effectively to meet its mandate and has considered the risk pertinent to the municipality in its audit plans. The following documents were approved by the Audit Committee and perfomance committee and recomended to Council for adoption
- Internal Audit Charter
- Internal Audit methodology
- Three year rolling strategic and Annual Audit Plan
- Combined Assurance framework

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

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Chairperson of the Audit Committee

Date: ______________________

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2018.

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017
Assets			
Current Assets			
Inventories	8	2,408,313	2,414,380
Operating lease asset	6	160,382	140,483
Receivables from exchange transactions	9&12	26,720,254	23,526,963
Receivables from non-exchange transactions	10&12	16,521,518	16,742,872
VAT receivable	11	1,225,733	-
Cash and cash equivalents	13	38,180,931	8,070,190
		85,217,131	**50,894,888**
Non-Current Assets			
Investment property	2	195,036,184	195,036,184
Property,plant and equipment	3	795,539,333	794,380,178
Intangible assets	4	681,353	681,353
Heritage assets	5	10,255,716	10,255,716
		1,001,512,586	**1,000,353,431**
Total Assets		**1,086,729,717**	**1,051,248,319**
Liabilities			
Current Liabilities			
Payables from exchange transactions	18	113,702,131	134,648,607
VAT payable	19	-	4,821,353
Consumer deposits	20	1,840,429	1,758,834
Employee benefit obligation	7	3,395,018	2,964,113
Unspent conditional grants and receipts	15	1,823,952	-
		120,761,530	**144,192,907**
Non-Current Liabilities			
Employee benefit obligation	7	9,112,000	12,416,000
Provisions	16	23,903,483	23,901,199
		33,015,483	**36,317,199**
Total Liabilities		**153,777,013**	**180,510,106**
Net Assets		**932,952,704**	**870,738,213**
Accumulated surplus	14	870,738,213	870,738,213

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017
Revenue			
Revenue from exchange transactions			
Service charges	22	103,619,645	86,022,235
Rental of facilities and equipment	23	123,339	1,041,770
Fees earned		1,075,996	873,354
Commissions received		5,961	6,990
Other revenue	24	612,329	167,281
Interest received - investment	25	655,254	642,809
Total revenue from exchange transactions		**106,092,524**	**88,754,439**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	35,496,648	53,459,890
Licences and Permits (Non-exchange)		1,749	1,450
Transfer revenue			
Government grants & subsidies	27	112,213,753	88,535,067
Public contributions and donations	29	-	21,792,000
Fines, Penalties and Forfeits		15,926,553	9,127,538
Total revenue from non-exchange transactions		**163,638,703**	**172,915,945**
Total revenue	21	**269,731,227**	**261,670,384**
Expenditure			
Employee related costs	30	(87,450,248)	(87,617,048)
Remuneration of councillors	31	(6,127,957)	(5,560,353)
Depreciation and amortisation	32	-	(43,411,908)
Impairment loss	33	-	(31,189,431)
Finance costs	34	(5,427,035)	(5,472,602)
Repairs and Maintenance	28	(4,885,157)	(3,355,575)
Bulk purchases	35	(52,687,780)	(47,336,635)
Contracted services	36	(5,071,800)	(4,096,017)
Loss on disposal of assets and liabilities		-	(1,412,240)
Loss money theft		-	(3,511)
Gains/(loss) on landfill sites valuation		-	(2,470,226)
Actuarial (gains)/losses		(4,909,000)	(2,173,000)
General Expenses	37	(30,402,832)	(41,483,708)
Total expenditure		**(196,961,809)**	**(275,582,254)**
Surplus (deficit) for the year		**74,593,370**	**(13,911,870)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2016	**884,650,083**	**884,650,083**
Changes in net assets		
Surplus for the year	(13,911,870)	(13,911,870)
Total changes	(13,911,870)	(13,911,870)
Balance at 01 July 2017	**870,738,213**	**870,738,213**
Balance at 30 June 2018	**870,738,213**	**870,738,213**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017
Cash flows from operating activities			
Receipts			
Property Rates		-	46,259,604
Grants		114,037,705	88,535,067
Interest income		655,254	642,809
Service Charges		-	82,771,955
Fines, Penalties and Forfeits		15,926,553	9,127,538
Other revenue	40	743,378	1,950,362
		131,362,890	229,287,335
Payments			
Employee costs		(93,578,205)	(93,177,401)
Suppliers		-	(99,212,711)
Finance costs		(5,427,035)	(5,472,602)
		(99,005,240)	(197,862,714)
Undefined difference compared to the cash generated from operations note		**89,781,810**	**-**
Net cash flows from operating activities	39	**122,139,460**	**31,424,621**
Cash flows from investing activities			
Purchase of property,plant and equipment	3	-	(32,660,669)
Net increase/(decrease) in cash and cash equivalents		**122,139,460**	**(1,236,048)**
Cash and cash equivalents at the beginning of the year		8,070,190	9,306,238
Cash and cash equivalents at the end of the year	13	**130,209,650**	**8,070,190**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	84,801,921	18,020,559	**102,822,480**	103,619,645	**797,165**	
Rental of facilities and equipment	4,713,068	(3,613,068)	**1,100,000**	123,339	**(976,661)**	
Fees earned	-	-	**-**	1,075,996	**1,075,996**	
Commissions received	-	-	**-**	5,961	**5,961**	
Other income 1	-	-	**-**	612,329	**612,329**	
Interest received - investment	7,650,560	(6,330,743)	**1,319,817**	655,254	**(664,563)**	
Total revenue from exchange transactions	**97,165,549**	**8,076,748**	**105,242,297**	**106,092,524**	**850,227**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	57,511,819	(749,879)	**56,761,940**	35,496,648	**(21,265,292)**	
Licences and Permits (Non-exchange)	6,090	(5,437)	**653**	1,749	**1,096**	
Transfer revenue						
Government grants & subsidies	60,632,200	(1,044,004)	**59,588,196**	114,037,705	**54,449,509**	
Fines, Penalties and Forfeits	12,712,927	4,500,000	**17,212,927**	15,926,553	**(1,286,374)**	
Total revenue from non-exchange transactions	**130,863,036**	**2,700,680**	**133,563,716**	**165,462,655**	**31,898,939**	
Total revenue	**228,028,585**	**10,777,428**	**238,806,013**	**271,555,179**	**32,749,166**	
Expenditure						
Personnel	(100,160,962)	8,706,903	**(91,454,059)**	(87,450,248)	**4,003,811**	
Remuneration of councillors	(6,066,452)	(194,000)	**(6,260,452)**	(6,127,957)	**132,495**	
Finance costs	(3,936,800)	-	**(3,936,800)**	(5,427,035)	**(1,490,235)**	
Repair and Maintenance	(6,754,173)	(2,104,192)	**(8,858,365)**	(4,885,157)	**3,973,208**	
Bulk purchases	(49,850,879)	-	**(49,850,879)**	(52,687,780)	**(2,836,901)**	
Contracted Services	(5,559,570)	-	**(5,559,570)**	(5,071,800)	**487,770**	
General Expenses	(56,296,556)	14,367,578	**(41,928,978)**	(10,343,024)	**31,585,954**	
Total expenditure	**(228,625,392)**	**20,776,289**	**(207,849,103)**	**(171,993,001)**	**35,856,102**	
Surplus before taxation	**(596,807)**	**31,553,717**	**30,956,910**	**99,562,178**	**68,605,268**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(596,807)**	**31,553,717**	**30,956,910**	**99,562,178**	**68,605,268**	

Reconciliation

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	2,878,019	-	**2,878,019**	2,408,313	**(469,706)**	
Loans to shareholders	2,213,721	-	**2,213,721**	-	**(2,213,721)**	
Receivables from non-exchange transactions	-	-	**-**	75,906,259	**75,906,259**	
Consumer debtors	113,786,235	-	**113,786,235**	-	**(113,786,235)**	
Cash and cash equivalents	57,249,650	-	**57,249,650**	35,348,118	**(21,901,532)**	
	176,127,625	**-**	**176,127,625**	**113,662,690**	**(62,464,935)**	
Non-Current Assets						
Investment property	195,036,184	-	**195,036,184**	195,036,184	**-**	
Property,plant and equipment	768,721,664	-	**768,721,664**	795,539,333	**26,817,669**	
Intangible assets	679,755	-	**679,755**	681,353	**1,598**	
Heritage assets	10,255,716	-	**10,255,716**	10,255,716	**-**	
	974,693,319	**-**	**974,693,319**	**1,001,512,586**	**26,819,267**	
Total Assets	**1,150,820,944**	**-**	**1,150,820,944**	**1,115,175,276**	**(35,645,668)**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	72,201,747	-	**72,201,747**	183,883,511	**111,681,764**	
Consumer deposits	-	-	**-**	1,840,429	**1,840,429**	
Provisions	418,950	-	**418,950**	-	**(418,950)**	
Bank overdraft	-	-	**-**	84,516,808	**84,516,808**	
	72,620,697	**-**	**72,620,697**	**270,240,748**	**197,620,051**	
Non-Current Liabilities						
Employee benefit obligation	-	-	**-**	12,920,000	**12,920,000**	
Provisions	39,871,831	-	**39,871,831**	23,903,483	**(15,968,348)**	
	39,871,831	**-**	**39,871,831**	**36,823,483**	**(3,048,348)**	
Total Liabilities	**112,492,528**	**-**	**112,492,528**	**307,064,231**	**194,571,703**	
Net Assets	**1,038,328,416**	**-**	**1,038,328,416**	**808,111,045**	**(230,217,371)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1,038,328,416	-	**1,038,328,416**	764,363,308	**(273,965,108)**	
Undefined Difference	**-**	**-**	**-**	**43,747,737**	**43,747,737**	
Total Net Assets	**1,038,328,416**	**-**	**1,038,328,416**	**764,363,308**	**(273,965,108)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property Rates	57,511,819	-	**57,511,819**	-	**(57,511,819)**	
Service Charges	84,801,921	-	**84,801,921**	-	**(84,801,921)**	
Grants	115,192,000	(1,044,004)	**114,147,996**	-	**(114,147,996)**	
Interest income	7,650,560	(6,330,743)	**1,319,817**	-	**(1,319,817)**	
Other receipts	22,823,062	-	**22,823,062**	-	**(22,823,062)**	
	287,979,362	**(7,374,747)**	**280,604,615**	**-**	**(280,604,615)**	
Payments						
Employee costs	(267,308,553)	63,396,518	**(203,912,035)**	-	**203,912,035**	
Finance costs	(59,236,124)	55,299,234	**(3,936,890)**	-	**3,936,890**	
Transfers and subsidies	(5,559,570)	5,559,570	**-**	-	**-**	
Capital assets	(55,484,000)	(774,824)	**(56,258,824)**	-	**56,258,824**	
	(387,588,247)	**123,480,498**	**(264,107,749)**	**-**	**264,107,749**	
Net cash flows from operating activities	**(99,608,885)**	**116,105,751**	**16,496,866**	**-**	**(16,496,866)**	
Net increase/(decrease) in cash and cash equivalents	(99,608,885)	116,105,751	**16,496,866**	-	**(16,496,866)**	
Cash and cash equivalents at the beginning of the year	8,070,190	-	**8,070,190**	-	**(8,070,190)**	
Cash and cash equivalents at the end of the year	**(91,538,695)**	**116,105,751**	**24,567,056**	**-**	**(24,567,056)**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.4 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note).

1.5 Property,plant and equipment

Property,plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property,plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property,plant and equipment is initially measured at cost.

The cost of an item of property,plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

1.5 Property,plant and equipment (continued)

Where an item of property,plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property,plant and equipment have different useful lives, they are accounted for as separate items (major components) of property,plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property,plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property,plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property,plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property,plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property,plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property,plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property,plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property,plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property,plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property,plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property,plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property,plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property,plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property,plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Accounting Policies

1.5 Property,plant and equipment (continued)

Property,plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property,plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property,plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset’s carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset’s carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property,plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	15-60
Plant and machinery	Straight line	5-7
Furniture and fittings	Straight line	5-7
Office equipment	Straight line	5-7
Roads and Paving	Straight line	10-60
Electricity	Straight line	15-60
Water	Straight line	15-100
Sewerage	Straight line	5-60
Landfill Sites	Straight line	25
Specialised Vehicles	Straight line	5-7
Other Vehicles	Straight line	5-7
Recreational Facilities	Straight line	10-60

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property,plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property,plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property,plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property,plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Accounting Policies

1.5 Property,plant and equipment (continued)

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The municipality separately discloses expenditure to repair and maintain property,plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property,plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property,plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Accounting Policies

1.7 Intangible assets (continued)

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	8

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

1.8 Heritage assets (continued)

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

1.8 Heritage assets (continued)

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').

1.9 Financial instruments (continued)

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or

1.9 Financial instruments (continued)

- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Short-term Investment Deposits-Call	Financial asset measured at amortised cost
Bank Balances and Cash	Financial asset measured at amortised cost
Long-term Receivables	Financial asset measured at amortised cost
Consumer Debtors	Financial asset measured at amortised cost
Other Debtors	Financial asset measured at amortised cost
Investment in Fixed Deposits	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Other Creditors	Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Accounting Policies

1.9 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

1.9 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.9 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality’s net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Accounting Policies

1.10 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

1.12 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

[Specify judgements made]

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.12 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Foreign currency future cash flows

Future cash flows are estimated in the currency in which they will be generated and then discounted using a discount rate appropriate for that currency. The municipality translates the present value using the spot exchange rate at the date of the value in use calculation.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Accounting Policies

1.13 Impairment of non-cash-generating assets (continued)

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

[Specify judgements made]

Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:
- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.13 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.14 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.15 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity’s own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.15 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

1.15 Employee benefits (continued)

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.15 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Accounting Policies

1.15 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.16 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.16 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.12 and 1.13.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.17 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.18 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

1.18 Revenue from exchange transactions (continued)

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

1.19 Revenue from non-exchange transactions (continued)

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality’s operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.21 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.22 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

Accounting Policies

1.23 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.24 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.26 Revaluation reserve

The surplus arising from the revaluation of property,plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2017/07/01 to 2018/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note .

Comparative information is not required.

1.28 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

Accounting Policies

1.28 Related parties (continued)

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

2. Investment property

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	195,036,184	-	195,036,184	195,036,184	-	195,036,184

Reconciliation of investment property - 2018

	Opening balance	**Total**
Investment property	195,036,184	195,036,184

Reconciliation of investment property - 2017

	Opening balance	**Total**
Investment property	195,036,184	195,036,184

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

Notes to the Annual Financial Statements

Figures in Rand

3. Property,plant and equipment

	2018			2017		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	3,781,354	-	3,781,354	3,781,354	-	3,781,354
Buildings	170,889,468	-	170,889,468	170,889,468	(101,064,253)	69,825,215
Infrastructure	1,299,753,509	(715,927,408)	583,826,101	1,299,589,923	(602,968,409)	696,621,514
Other property, plant and equipment	37,042,410	-	37,042,410	36,728,771	(12,576,676)	24,152,095
Total	**1,511,466,741**	**(715,927,408)**	**795,539,333**	**1,510,989,516**	**(716,609,338)**	**794,380,178**

Reconciliation of property,plant and equipment - 2018

	Opening balance	**Total**
Land	3,781,354	3,781,354
Buildings	170,889,468	170,889,468
Infrastructure	583,826,101	583,826,101
Other property, plant and equipment	37,042,410	37,042,410
Total	**795,539,333**	**795,539,333**

Notes to the Annual Financial Statements

Figures in Rand

3. Property,plant and equipment (continued)

Reconciliation of property,plant and equipment - 2017

	Opening balance	Additions	Work In Progress	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	3,781,354	-	-	-	-	-	-	3,781,354
Buildings	67,172,708	9,647,331	-	(18,264)	(2,079,178)	(3,719,975)	(1,177,407)	69,825,215
Infrastructure	699,396,071	43,483,931	25,640,356	(1,362,862)	(6,604,785)	(37,605,736)	(685,105)	696,621,514
Other property, plant and equipment	21,848,964	4,276,039	-	(31,113)	-	(1,941,795)	-	24,152,095
Total	**792,199,097**	**57,407,301**	**25,640,356**	**(1,412,239)**	**(8,683,963)**	**(43,267,506)**	**(1,862,512)**	**794,380,178**

Reconciliation of Work-in-Progress 2018

	Included within Infrastructure	Total
Opening balance	25,640,356	25,640,356
Additions/capital expenditure	-	-
Other movements [specify]	-	-
Transferred to completed items	-	-
	25,640,356	**25,640,356**

Reconciliation of Work-in-Progress 2017

	Included within Infrastructure	Total
Opening balance	34,324,319	34,324,319
Additions/capital expenditure	44,447,299	44,447,299
Transferred to completed items	(53,131,262)	(53,131,262)
Total	**25,640,356**	**25,640,356**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

3. Property,plant and equipment (continued)

Heritage assets

[Where the entity holds heritage assets, but has not accounted for such assets using GRAP 17 or using an accounting policy based on GRAP 103, consider whether disclosure, including a description of the nature and extent, of these assets is useful to the users of the annual financial statements.]

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

4. Intangible assets

	2018			2017		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	2,491,155	(1,809,802)	681,353	2,491,155	(1,809,802)	681,353

Reconciliation of intangible assets - 2018

	Opening balance	Total
Computer software, other	681,353	681,353
Other intangible assets	-	-
Total	**681,353**	**681,353**

Reconciliation of intangible assets - 2017

	Opening balance	Amortisation	Total
Computer software, internally generated	825,755	(144,402)	681,353
Other intangible assets	-	-	-
Total	**825,755**	**(144,402)**	**681,353**

5. Heritage assets

	2018			2017		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Municipal Jewellery	-	-	-	12,996	-	12,996
Cultural Buildings	10,255,716	-	10,255,716	10,242,720	-	10,242,720
Total	**10,255,716**	**-**	**10,255,716**	**10,255,716**	**-**	**10,255,716**

Reconciliation of heritage assets 2018

	Opening balance	Total
Municipal Jewellary and Cultural Buildings	10,255,716	10,255,716
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Other (specify class)	-	-

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

5. Heritage assets (continued)

Total	**10,255,716**	**10,255,716**

Reconciliation of heritage assets 2017

	Opening balance	Total
Municipal Jewellery	12,996	12,996
Cultural Buildings	10,242,720	10,242,720
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Other (specify class)	-	-
Total	**10,255,716**	**10,255,716**

6. Operating lease asset

Current assets	160,382	140,483

7. Employee benefit obligations

Post emplyment medical aid benefit

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation	5,713,000	8,959,000

[Provide a brief description of the link between the reimbursement right(s) and the related obligation]

The fair value of plan assets includes:

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	8,956,000	10,007,000
Current service cost	699,000	705,000
Interest cost	710,000	1,016,000
Benefits paid	(227,000)	(273,000)
Actuarial gains/losses	(4,425,000)	(2,499,000)
	5,713,000	**8,956,000**

Net expense recognised in the statement of financial performance

Current service cost	699,000	705,000
Past service cost	(227,000)	(273,000)
Interest cost	710,000	1,016,000
Actuarial (gains) losses	(4,425,000)	(2,499,000)
	(3,243,000)	**(1,051,000)**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10.41 %	8.03 %
Health Care Cost Inflation Rate	8.20 %	6.33 %
Net Effective Discount Rate	2.04 %	1.60 %
Consumer price inflation	7.20 %	5.33 %

7. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	**One percentage point decrease**
Employer's accrued liability	6,700,000	4,915,000
Service cost	446,000	305,000
Interest cost	687,000	502,000

Amounts for the current and previous four years are as follows:

	2018	**2017**	**2016**	**2015**	**2014**
Defined benefit obligation	5,713,000	8,956,000	10,007,000	8,336,604	6,980,619

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

7. Employee benefit obligations (continued)

Long Service Award

Long service award arrangement
- After 10 years of service- 10 working days
- After 15 years of service- 20 working days
- After 20 years of service- 30 working days
- After 25 years of service- 30 working dayst
- After 30 years of service- 30 working days
- After 35 years of service- 30 working days

Changes in the present value of the defined benefit obligation are as follows:

The long service awards of the municipality is unfunded. No dedicated assets have been set aside to meet this number of years in service.

Opening balance		
Opening balance	3,964,000	3,880,000
Current Service cost	371,000	415,000
Interest cost	340,000	394,000
Benefits paid	(277,000)	(399,000)
Actuarial (gains)/losses	(484,000)	(326,000)
	3,914,000	**3,964,000**

Movement in present value of defined benefit plan

Opening balance	1,600,340	1,516,340
Current service cost	371,000	415,000
Interest cost	340,000	394,000
Benefit cost	(277,000)	(399,000)
Actuarial (gains)/losses	(484,000)	(326,000)
Amount to be recognised in the statement of financial position	**1,550,340**	**1,600,340**

Amount recognised in statement of financial performance

Current Service cost	371,000	415,000
Benefit cost	(277,000)	(399,000)
Interest cost	340,000	394,000
Actuarial (gains)/losses	(484,000)	(326,000)
	(50,000)	**84,000**

The history of experienced adjustments	**2018**	**2017**	**2016**	**2015**	**2014**
Present value of defined benefit plan	1,550,340	1,600,340	1,516,340	1,240,340	1,225,105

Reconcilliation of employee benefit obligation

30 June 2018	**Long service award**	**Post employment benefit**	**Total**
Opening balance	3,964,000	8,956,000	12,920,000
Service costs	371,000	699,000	1,070,000
Interest cost	340,000	710,000	1,050,000
Actuarial (gains)/losses	(484,000)	(4,425,000)	(4,909,000)
Benefit payments	(277,000)	(227,000)	(504,000)
Current portion of provision	(324,000)	(191,000)	(515,000)

Notes to the Annual Financial Statements

Figures in Rand		2018	2017
7. Employee benefit obligations (continued)			
	3,590,000	**5,522,000**	**9,112,000**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

7. Employee benefit obligations (continued)

Reconcilliation of employee benefits obligation

30 June 2017	Long service award	Post emplyment benefit	Total
Opening balance	3,880,000	10,007,000	13,887,000
Service cost	415,000	705,000	1,120,000
Interest cost	394,000	1,016,000	1,410,000
Actuarial (gains)/losses	(326,000)	(2,499,000)	(2,825,000)
Benefit payments	(399,000)	(273,000)	(672,000)
Current portion of provision	(277,000)	(227,000)	(504,000)
	3,687,000	**8,729,000**	**12,416,000**

8. Inventories

	2018	2017
Finished goods	2,360,538	2,366,714
Water	47,775	47,666
Total	**2,408,313**	**2,414,380**

9. Receivables from exchange transactions

	2018	2017
Consumer debtors - Electricity	6,043,814	3,690,978
Consumer debtors - Water	8,182,474	5,713,135
Consumer debtors - Sewerage	8,336,844	4,878,439
Consumer debtors - Refuse	4,157,122	3,099,023
	26,720,254	**17,381,575**

10. Receivables from non-exchange transactions

	2018	2017
Fines	3,022,850	1,544,290
Other debtors	150,343	72,766
Property Rates	12,937,593	14,726,530
Accruals	410,732	399,286
Total	**16,521,518**	**16,742,872**

11. VAT receivable

	2018	2017
VAT	1,225,733	-

12. Consumer debtors disclosure

Gross balances	2018	2017
Consumer debtors - Rates	75,906,259	83,692,138
Consumer debtors - Electricity	34,729,150	25,261,615
Consumer debtors - Water	38,188,663	34,852,591
Consumer debtors - Sewerage	22,607,970	18,796,268
Consumer debtors - Refuse	26,129,786	29,158,510
Other debtors	3,583,925	8,161,730
	201,145,753	**199,922,852**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Consumer debtors disclosure (continued)

Less: Allowance for impairment		
Consumer debtors - Rates	62,968,666	68,965,609
Consumer debtors - Electricity	28,685,336	21,570,636
Consumer debtors - Water	30,006,189	29,139,456
Consumer debtors - Sewerage	14,271,126	13,917,828
Consumer debtors - Refuse	21,972,664	26,059,487
Other debtors	-	-
	157,903,981	**159,653,016**

Net balance		
Consumer debtors - Rates	12,937,593	14,726,530
Consumer debtors - Electricity	6,043,814	3,690,978
Consumer debtors - Water	8,182,474	5,713,135
Consumer debtors - Sewerage	8,336,844	4,878,439
Consumer debtors - Refuse	4,157,122	3,099,023
Consumer debtors	3,583,925	8,161,730
	43,241,772	**40,269,835**

Included in above is receivables from exchange transactions		
Electricity	6,043,814	3,690,978
Water	8,182,474	5,713,135
Sewerage	8,336,844	4,878,439
Refuse	4,157,122	3,099,023
Other debtors	-	6,145,388
	26,720,254	**23,526,963**

Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	12,937,593	14,726,530
Other non-exchange debtors	3,583,925	2,016,342
	16,521,518	**16,742,872**

Net balance	**43,241,772**	**40,269,835**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

12. Consumer debtors disclosure (continued)

Summary of debtors by customer classification

	2018	2017
Residential		
Current (0 -30 days)	4,776,216	4,523,852
31 - 60 days	3,828,670	7,633,188
61 - 90 days	3,446,416	3,158,021
91 - 120 days	118,649,155	104,390,634
	130,700,457	119,705,695
Less: Allowance for impairment	(110,295,116)	(101,863,015)
	20,405,341	**17,842,680**
Industrial/ commercial		
Current (0 -30 days)	1,322,863	1,222,904
31 - 60 days	691,236	2,977,337
61 - 90 days	516,549	1,340,055
91 - 120 days	21,153,183	21,260,098
	23,683,831	26,800,394
Less: Allowance for impairment	(19,057,917)	(22,445,647)
	4,625,914	**4,354,747**
National and provincial government		
Current (0 -30 days)	523,484	1,222,904
31 - 60 days	165,342	(695,851)
61 - 90 days	123,873	105,190
91 - 120 days	5,298,071	190,384
Less: Allowance for impairment	-	-
	6,110,770	**822,627**
Other consumer debtors		
Current (0 -30 days)	1,496,236	1,540,655
31 - 60 days	903,858	3,445,666
61 - 90 days	802,902	-
91 - 120 days	33,863,774	41,818,633
	37,066,770	46,804,954
Less: Allowance for impairment	(28,550,948)	(35,344,354)
	8,515,822	**11,460,600**
Reconciliation of allowance for impairment		
Balance at beginning of the year	159,653,017	130,245,631
Contributions to allowance	-	29,407,386
Reversal of allowance	(1,749,036)	-
	157,903,981	**159,653,017**

13. Cash and cash equivalents

Cash and cash equivalents consist of:

	2018	2017
Cash on hand	-	27,791
Bank balances	511,549	2,750,119
Short-term deposits	37,669,382	5,292,280
Total	**38,180,931**	**8,070,190**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

13. Cash and cash equivalents (continued)

The municipality had the following bank accounts

INSTITUTION

		30 June 2018	30 June 2017
FNB - CALL ACCOUNT	Account No. 62178430212	1,661,765	4,309,277
FNB - CALL ACCOUNT	Account No. 62076419508	-	911,744
FNB - 7 DAY ACCOUNT	Account No. 74483123713	1,531,889	66,759
FNB - CALL ACCOUNT	Account No. 61165004600	-	2,500
FNB - 32 DAY CALL ACC	Account No. 74006889065	-	2,000
FNB - CHEQUE ACCOUNT	Account No. 62028195510	511,549	2,750,119
FNB-CALL ACCOUNT	Account no. 62720717761	10,424,319	-
FNB-CALL ACCOUNT	Account no. 74720711205	499,742	-
FNB-CALL ACCOUNT	Account no. 74720709953	1,304,986	-
FNB-CALL ACCOUNT	Account no. 74720711702	6,695,883	-
FNB-CALL ACCOUNT	Account no. 74720708666	997,175	-
FNB-CALL ACCOUNT	Account no. 74720719957	911,843	-
FNB-CALL ACCOUNT	Account no. 747639822095	13,641,780	-
Total		**38,180,931**	**8,042,399**

14. Accumulated surplus

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Water Service Infrastructure Grant	1,767,832	-
Expanded Public Works Programme Grant	56,120	-
	1,823,952	**-**

Movement during the year

Balance at the beginning of the year	-	-
Additions during the year	1,832,952	-
Income recognition during the year	-	-
	1,832,952	**-**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

16. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Difference	Total
Environmental rehabilitation	-	**23,903,483**	23,903,483

Reconciliation of provisions - 2017

	Opening Balance	Utilised during the year	Total
Environmental rehabilitation	2,468,204	(2,739)	2,465,465
Provision 1	399,000	(126,000)	273,000
Employee benefit cost	265,000	(39,352)	225,648
Total	**3,132,204**	**(168,091)**	**2,964,113**

Employee benefit cost provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

17. Provision for landfill site rehabilitation

Non current provision

	2018	2017
Landill site rehabilitation	45,880,023	24,694,405

Movements in non current provision

	2018	2017
Heading		
Opening balance	-	24,694,405

2017

Sub-heading

Heading		
Opening balance	-	28,254,660

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

18. Payables from exchange transactions

Trade payables	63,081,546	82,432,676
Debtors received in advance	13,883,938	12,652,366
Deferred revenue	532,602	7,193,879
Other creditors	-	4,011,410
Retentions	9,103,921	7,557,322
Unallocated receipts	20,573,320	10,198,875
Leave pay provisions	5,982,334	5,885,816
Employee accruals	544,470	13,455,674
Total	**113,702,131**	**143,388,018**

19. VAT payable

Vat Payable	-	4,821,353

20. Consumer deposits

Electricity and Water	1,722,913	1,758,834
Water	23,224	-
Rental	94,292	-
Total	**1,840,429**	**1,758,834**

21. Revenue

Service charges	103,619,645	86,022,235
Rental of facilities and equipment	123,339	1,041,770
Fees earned	1,075,996	873,354
Commissions received	5,961	6,990
Licence and permits	1,749	1,450
Other income 1	612,329	167,281
Interest received - investment	655,254	642,809
Property rates	35,496,648	53,459,890
Government grants & subsidies	112,213,753	88,535,067
Public contributions and donations	-	21,792,000
Fines, Penalties and Forfeits	15,926,553	9,127,538
Total	**269,731,227**	**261,670,384**

The amount included in revenue arising from exchanges transactions are as follows:

Service charges	103,619,645	86,022,235
Rental of facilities and equipment	123,339	1,041,770
Fees earned	1,075,996	873,354
Commissions received	5,961	6,990
Other income 1	612,329	167,281
Interest received - investment	655,254	642,809
Total	**106,092,524**	**88,754,439**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

21. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	35,496,648	53,459,890
Licences or permits	1,749	1,450
Transfer revenue		
Government grants & subsidies	112,213,753	88,535,067
Public contributions and donations	-	21,792,000
Fines, Penalties and Forfeits	15,926,553	9,127,538
Total	**163,638,703**	**172,915,945**

22. Service charges

Sale of electricity	61,869,418	51,595,507
Sale of water	17,877,870	14,213,696
Sewerage and sanitation charges	12,079,821	10,154,438
Refuse removal	11,792,536	10,058,594
Total	**103,619,645**	**86,022,235**

23. Rental of facilities and equipment

Premises		
Rental Revenue-Investment Property	116,174	175,325
Rental of office dwellings	-	810,595
Rental of buildings	-	43,439
Rental of challet	2,751	3,152
Rental site fees	4,414	9,259
Total	**123,339**	**1,041,770**

24. Other revenue

Sundry revenue	612,329	167,281

25. Investment revenue

Interest Earned		
Primary Bank Account	224,667	84,398
Investment-Call Accounts	430,587	558,411
Total	**655,254**	**642,809**

26. Property rates

Rates received

Property rates	48,869,610	53,799,809
Less: Income forgone	(13,372,692)	(339,919)
Total	**35,496,918**	**53,459,890**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

27. Government grants and subsidies

Operating grants		
Equitable share	55,222,000	51,837,067
EPWP Grant	1,233,880	1,217,000
Finance Management Grant	1,900,000	1,825,000
MIG Operational Grant (PMU)	924,200	1,270,200
Internship Subsidy	141,705	252,000
Sub Total	**59,421,785**	**56,401,267**
Capital grants		
Integrated National Electrification Programme Grant	7,000,000	8,000,000
Municipal Infrastructure Grant	17,559,800	24,133,800
Water Service Infrastructure Grant	28,232,168	-
Sub Total	**52,791,968**	**32,133,800**
Total	**112,213,753**	**88,535,067**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	58,815,705	36,698,000
Unconditional grants received	55,222,000	51,837,067
	114,037,705	**88,535,067**

28. Repairs and Maintenance

Repairs and Maintenance	4,885,157	3,355,575

29. Public contributions and donations

Donations In Kind	-	21,792,000

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

30. Employee related costs

Basic	60,536,802	58,809,592
Bonus	3,219,345	3,181,375
Medical aid - company contributions	3,220,003	3,140,639
UIF	502,364	486,098
SDL	630,523	604,045
SALGBC and Other payroll levies	51,326	47,943
Pension fund contributions	8,601,873	8,579,975
Travel, motor car, accommodation, subsistence and other allowances	6,288,333	6,898,963
Overtime payments	3,722,921	4,329,624
Housing benefits and allowances	676,758	696,901
Defined benefit plan expense	-	841,893
Total	**87,450,248**	**87,617,048**

Municipal Manager- E.K Tshabalala

Annual Remuneration	690,538	633,098
Car Allowance	189,617	211,452
Contributions to UIF, Medical and Pension Funds	153,701	149,059
Backpay	19,565	32,848
SALGBC	99	-
	1,053,520	**1,026,457**

Chief Financial Officer- Mr P.J Nhlabathi

Annual Remuneration	401,922	-
Car Allowance	70,163	-
Contributions to UIF, Medical and Pension Funds	101,650	-
SALGBC	74	-
Backpay	3,574	-
	577,383	**-**

Acting Chief Financial Officer-M. Mahlangu

Annual Remuneration	63,302	-
Car Allowance	28,329	-
Acting Allowance	48,661	-
Other	1,000	-
	141,292	**-**

Ms. Michelle Mahlangu was appointed Acting Chief Financial Officer on the 01 August 2017 until 30 September 2017.

Chief Financial Officer-MM Ngwenya

Annual Remuneration	81,102	466,464
Car Allowance	15,085	102,093
Contributions to UIF, Medical and Pension Funds	-	149,826
Backpay	-	27,580
Other	1,500	-
	97,687	**745,963**

Mrs M.M. Ngwenya serves as Chief Financial Officer as from 19 March 2014 up to 31 July 2017 (Contract ended)

Manager: Corporate Services- Mr I.M Abdullah

Figures in Rand	2018	2017

30. Employee related costs (continued)

	2018	2017
Annual Remuneration	480,612	399,671
Car Allowance	123,742	186,529
Contributions to UIF, Medical and Pension Funds	151,193	147,894
Backpay	14,297	27,576
	769,844	**761,670**

Manager Infrastructure, Panning and Social Development-M.L Mamaleka

	2018	2017
Annual Remuneration	286,706	-
Car Allowance and other allowances	65,148	-
Contributions to UIF, Medical and Pension Funds	33,068	-
	384,922	**-**

Mr M.L. Mamaleka serves as Manager Infrastructure, Planning and Social Development since 02 January 2018.

The expenditure of the Manager Infrastructure, Planning and Social Development is included under related

Manager Infrastructure,Planning and Social Development- L.O Sindane

	2018	2017
Annual Remuneration	248,045	452,385
Car Allowance	76,993	177,698
Contributions to UIF, Medical and Pension Funds	45,590	89,428
Backpay	14,297	29,230
Leave Pay Out	-	13,585
	384,925	**762,326**

31. Remuneration of councillors

	2018	2017
Councillors	6,127,957	5,560,353

Executive Mayor	Annual Remuneration	Telephone Allowance	Vehicle Allowance	Housing Allowance	Backpay	Company Contributions
T.D Ngwenya	446,931	35,400	178,538	35,000	17,744	67,040
Subtotal	446,931	35,400	178,538	35,000	17,744	67,040
	446,931	**35,400**	**178,538**	**35,000**	**17,744**	**67,040**

Executive Committee	Annual Remuneration	Telephone Allowance	Vehicle Allowance	Housing Allowance	Backpay	Company Contribution
N.A. Mashele	360,714	35,400	144,182	-	13,335	77,972
M Nkambule	358,346	35,400	136,194	-	15,970	53,752
S.S Mthimunye	358,346	35,400	136,194	-	15,970	53,752
T.E Scheefers	332,433	35,400	136,189	-	15,970	79,670
Subtotal	1,409,839	141,600	552,759	-	61,245	265,146
	1,409,839	**141,600**	**552,759**	**-**	**61,245**	**265,146**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

31. Remuneration of councillors (continued)

Councillors	Annual Remuneration	Telephone Allowance	Vehicle Allowance	Housing Allowance	Backpay	Company Contribution
XD Masina	210,723	35,400	55,351	-	4,986	31,609
MP Ntuli	210,723	35,400	55,351	-	4,986	31,609
NT Masha	210,723	35,400	55,351	-	4,986	31,609
AA Botha	151,834	35,400	54,990	-	6,247	22,775
TJ Duma	139,494	33,200	50,533	-	24,895	20,924
SI Skhosana	151,834	35,400	54,990	-	6,247	22,775
R Ndlovu	135,107	35,400	54,157	-	2,993	49,575
SS Tshabalala	151,834	35,400	54,990	-	6,247	22,775
DM Scheefers	151,834	35,400	54,990	-	6,247	22,775
TC Ngomane	151,834	35,400	54,990	-	6,247	22,775
Subtotal	1,665,940	351,800	545,693	-	74,081	279,201
	1,665,940	**351,800**	**545,693**	**-**	**74,081**	**279,201**

32. Depreciation and amortisation

	2018	2017
Property,plant and equipment	-	43,267,506
Intangible assets	-	144,402
Total	**-**	**43,411,908**

33. Impairment of assets

	2018	2017
Impairments		
Property,plant and equipment	-	604,639
Buildings	-	1,177,407
Receivables from exchange transactions	-	27,203,613
Receivables from non exchange transactions	-	17,703,773
	-	**46,689,432**
Reversal of impairments		
Trade and other receivables	-	(15,500,000)
Total impairment losses (recognised) reversed	**-**	**31,189,432**

34. Finance costs

	2018	2017
Interest paid	5,427,035	5,472,602
Landfill sites expenses	-	2,470,226
Total	**5,427,035**	**7,942,828**

35. Bulk purchases

	2018	2017
Electricity	52,687,780	47,336,635
Water	-	-
Total	**52,687,780**	**47,336,635**

36. Contracted services

	2018	2017
Security services	5,071,800	4,096,017

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

37. General expenses

Advertising	488,183	78,105
Auditors remuneration	4,735,333	4,780,426
Bank charges	661,080	268,999
Rental expenses	458,159	535,946
Consulting and professional fees	2,387,550	4,124,895
Donations	-	11,006
Entertainment	353,829	76,234
Insurance	575,002	406,464
Community development and training	232,026	120,469
Fuel and oil	2,871,940	12,857,770
Postage and courier	536,977	476,357
Printing and stationery	879,187	1,199,713
Protective clothing	514,537	364,470
Subscriptions and membership fees	121,250	812,021
Telephone and fax	1,053,725	1,878,299
Training	356,269	357,338
Travel - local	725,097	850,887
Refuse	91,545	80,754
Free basic services	6,639,750	1,411,286
Indigent support	-	958,512
Information books	-	56,863
Law enforcement service fees	-	1,915,504
Licence fees	300,461	285,807
Material and stock	1,355,967	74,702
Other general expenses	909,556	71,340
Manufacturing expenses	2,601,989	6,592,176
Rehabilitation of landil sites	1,321,230	546,667
Chemicals	232,190	290,698
Total	**30,402,832**	**41,483,708**

38. Auditors' remuneration

Fees	4,735,333	4,780,426

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

39. Cash generated from operations

Surplus (deficit)	99,562,178	(13,911,870)
Adjustments for:		
Depreciation and amortisation	-	45,330,214
Contribution to Retirement Benefit Liability	-	705,000
Contribution to Long Service Award Liability	-	415,000
Loss/(Gain) on dispisal of assets	-	1,412,239
Contribution to Provisions-Current	-	(126,000)
Correction of prior year error	-	(6,647,473)
Contribution to Provision-Non Current	-	2,465,465
Impairment losses on Property Plant and Equipment	-	1,782,046
Contribution to Impairment Provision	-	(29,166,185)
Movements in retirement benefit assets and liabilities	12,920,000	-
Movements in provisions	23,903,483	-
Changes in working capital:		
Inventories	(2,408,313)	326,590
Receivables from exchange transactions	(121,655,569)	3,353,679
Decrease/(Increase) in Receivables from non-exchange transactions	-	5,987,762
Other receivables from non-exchange transactions	(75,906,259)	-
Decrease/(Increase) in operating lease assets	-	140,483
Decrease/(Increase) in Current Portion of Provisions	-	2,565,113
Payables from exchange transactions	183,883,511	16,379,940
Increase/(Decrease) in VAT Payable	-	1,471,122
Increase/(Decrease) in Payables from non-exchange transactions	-	(148,207)
Increase/(Decrease) in Consumer deposits	1,840,429	55,770
Increase/(Decrease) in Conditional grants and receipts	-	(966,067)
	122,139,460	**31,424,621**

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

40. Other cash item 1

41. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property,plants and equipment	9,698,103	9,552,584
Total capital commitments		
Approved and Contracted for	9,698,103	9,552,584

Authorised operational expenditure

Already contracted for but not provided for		
• Other Commitments	6,107,008	3,313,967
Total operational commitments		
Already contracted for	6,107,008	3,313,967

This committed expenditure relates to property and other services provided by external service providers. Commitments are financed through grants as well as internally generated funds.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	-	26,266
- in second to fifth year inclusive	-	-
- later than five years	-	-
Total	**-**	**26,266**

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	-	745,284
- in second to fifth year inclusive	-	1,621,316
- later than five years	-	58,165
Total	**-**	**2,424,765**

Notes to the Annual Financial Statements

42. Contingencies

1. KOTO/ELM

The family occupies a beer hall at Siyathuthuka Location that belong to the municipality. The matter was referred to Ntulu Noble Attorneys on the 24 August 2017. The matter was heard on the 14 May 2018, but was postponed to allow the parties to reach a settlement agreement. It was agreed that the Koto sisters shall make application for Housing subsidy to ensure their eligibility for same. The matter is still pending.

2. MAGOVENI BUSNESS TRUST/ELM

The municipality appointed Magoveni Holdings with a letter dated the 06 May 2013 and entered into a service level agreement on the 15 May 2013 for a period of three years, wherein Magoveni was to assist the municipality with the provision of credit control and debt collection support.

Pleadings in the matter are closed, the parties have proceeded with discovery process and shall obtain a court date for pre-trial where after the matter will be set down for trial. Legal cost incurred as at 30 June 2018 amounted to R 468 061.59. Claim or settlement amount amounts to R 3 144 235.48 (Counterclaim made by Magoveni) and R 6 562 951.84 made by the municipality.

3. ROAD FREIGHT ASSOCIATION/ELM

The municipality has entered into SLA on the 03 January 2013 with Emakahzeni Fire and Emergency Services who was expected to render fire and emergency service for and on behalf of the municipality. It is evident that there were acts committed by Emakahazeni Fire and Emergency Services that led to the institution of the legal action by the Road Freight Association against the municipality and others.The Road Freigh Association requested the court to invoke the provision of Section 1,9 and 10 of the Fire Brigade Services Act, Act 99 of 1987 of charging fees to trucking companies for the purpoted performance of "Primary Incident Management Services" and "Scene Safety Services" in the manner described and in the circumstances articulated.

A settlement proposal on the capital a nd cost was made by the legal representative of Road Ferigh Association as follows: R 3 053 695.38 for a Claim and R 2 000 000.00 for legal costs. The setlement with be paid in 12 equal installment of R 421 141.25 per month from 31 July 2018.

4. VIVIEN DE KLERK/ ELM.

The municipality has been served with a Civil Law Suit Summons, from Messer Vivien De Klerk and De Klerk & Marais Incorporated. The matter relates to allegations of defamatory by the municipality during the pleadings filed by the municipality in the Road Freight Matter.

Pre trial was held on held on the 22 May 2018. The matter is enrolled for trial on the 22 October 2018. The settlement amounts to R 1 500 000.00 and legal costs incurred to date amounts to R 131 043.48

5. ELM/ P.E. FAKUDE

The former employee of the municipality was charged for the money that she collected on behalf of the municipality for banking purposes but she did not bank such money amounting to R 361 062. The municipality agreed to a full and final settlement of the matter at an amount of R 314 829-90, comprising of R 268 142-63 as cash payment and R 46 687-27 from leave days and notch progression which was ceded to the municipality.

The settlement value amounts to R 300 00.00 and legal cost incurred amounts to R 69 310.36.

6. ELM/ S.P. NGUBENI

The municipality is in the process of claiming amounts which are in arrears and start with the process of evicting tenants who are occupying municipal property without rental payments.Municipal Council through council resolution 23/05/2018, finalised to sell the municipal house to the respondent at current market value after the respondent had failed to effect purchase price in terms of the deed of sale as concluded between the parties in 2008.

Legal cost incurred amounts to 81 482.00 .

42. Contingencies (continued)

7. ELM/ B.J. MASHIFANE

The former employee of the municipality was charged for financial misconduct which led to the loss in the amount of R 139 703,79. The matter was before court on the 8 May 2018, but was postponed to determine the financial position of the respondent. The responded as agreed to cede his leave day and notch progression in an amount of R 32 923-72. Awaiting court order. The settlement value amounts to R 139 703.79 and legal cost incurred amounts to R 85 406.00.

8. ELM VS SAMWU (Strike)

Municipal employees embarked on an unprotected strike without any engagements and/or dispute with the municipality. Payment of the cost was made to the attorney in an amount of R 58 42.00, attorneys auditors are reconciling the file thereafter the money shall be transferred to the municipal account. Legal cost incurred to date amounts to R 212 377.20.

9. M. SAUNDER/ELM

The municipality received summons from Ms. M. Saunders in the month of March 2014 wherein the applicant claim that she fell into a storm water rain which was opened in Dullstroom and as a result she sustained serious injuries. The matter was finalised judgement against the municipality as follows:

R 30 000- medical cost

R 20 000- general damages

Legal costs R 54 444-58

10. N NUPO   O.B.O M MAJOLA/ELM

Summons have been received from the attorney representing M Majola, a minor who was electrocuted by electricity due to alleged negligence of the municipality. Summons was issued and the pleading have been closed, pre trial was held on the 22 May 2018.Matter set for trial on the 27 August 2018. The settlement value amounts to R 15 000 000.00 and legal costs incurred amount to R 59 537.00

11. ELM/SHATADI AUCTIONEERS

The municipality entered into a Service Level Agreement with Shatadi Auctioneers on the 04th July 2013, wherein Shatadi was appointed to dispose the redundant assets on behalf of the municipality. In terms of clause four (4) of the agreement Shatadi was supposed to pay the proceeds of the sale to the municipality within seven (7) working days of receiving the money, but to date they have not done so. Due the delays by the Sherriff summons lapsed and the attorney has re-issued the summon to claim the outstanding R 656 296.44. The respondent has since appointed new representative who is engaging in settlement proposition with the municipal attorney.

12. ELM/ SAMWU

This dispute arose after the municipality lost its bid against MEPF. SAMWU Provident Fund was paid contributions that were supposed to have been paid over to MEPF. The issuing of summons is barred by the payment of cost in a taxed amount of R 87 002.86 thereafter summons shall be issued. The settlement value amounts to R 3 151 932.46.

13. HIGHLANDS GATE DEBTORS

In terms of the Section 24 of the Municipal Property Rates Act No 6 of 2004, owners of properties must pay rates levied by a municipality. Collected to date R 1003 2892-92.

Summons have been issued for outstanding debtors in an amount of R 1237 964-56.

An Attorney was appointed to assist the municipality in recouping the monies and ensuring that the Highland Gates debtors comply with the Municipal Property Rates Act.

14. LOUIS PETER DE JAGER/ ELM

42. Contingencies (continued)

Summons arise from civil claim by the plaintiff against DPWRT, that on or about the 18th September 2015, while driving a Renault Clio IV 900 with registration number HGN 096 MP , collided with a pot hole resulting said vehicle overturning and being beyond repair. Matter settled at 50/50 liability. The settlement value amounts to R 107 110.96 and legal cost incurred amounts to R 26 425-00

15. D SPOHR /ELM

Emakhazeni Local Municipality undertook to replace all conventional meters with prepaid meters. The service provider was appointed to conduct the service. The municipality conducted challenged when installing same at Mr. Spohrs' residence and disconnected his electricity as a result, he then proceeded with a court application against the municipality. By agreement the rule nisi was discharged with each party to pay its own costs. the matter has been amicably finalised between the parties and prepaid meter was successfully installed.

16. M MABUZA / ELM

The municipality official was dimmed following charges of fraud , dismal was confirmed by Bargaining Council. Review application has been filed together with a notice of intention to oppose. The matter is still pending.

16. MAGNAVOLYT/ELM

The company was contracted to the municipality since December 2012 to provide and repair water pumps in all four units.

The company alleges that there were invoices to which payment was not done from December 2013 to 2015. Summonses were served by the sheriff in demand of the alleged outstanding payment. The matter has been finalized and payment has been made.

PRIOR YEAR CONTIGENCIES

1. J.J. NELSON

J.J Nel is a plaintiff, claiming for personal injuries and damages amounting to R1 800 000.00 incurred during an accident. A settlement was reached in the current year.

2. M. SAUNDERS

M. Saunders is a plaintiff, claiming R250 000.00 for personal injuries she sustained in an accident Dullstroom. Matter was before court on the 6 June 2017 and furthure postponed finaly to the 13 June 2017. Heads of argument file and we are waiting for the judgement.

3. SAMWU

SAMWU took legal actions against Emakhazeni Local Municipality employee's embarked on without any prior engagement or disputes. We have proceeded to re-issue a Warrant of Execution against the Property. A writ has been re-issued, the claim is for the amount of R10 000.000

4.ROAD FREIGHT ASSOCIATION

The Emakhazeni Local Municipality has entered into the service level agreement with Emakhazeni Municipality Fire and Emergency Services on 03 January 2013. In terms of the agreement Emakhazeni Fire and Emergency Services was expected to render fire and emergency services for and on behalf of the municipality. It is evident that there were acts committed by Emakhazeni Fire and Emergency Services that led to the institution of the legal action by the Road Freight Association against the municipality and others. The road fright association requested the court to invoke the provisions of section 1, 9 and 10 of the Fire Brigade Services Act, Act 99 of 1987 of charging the fee to trucking companies for the purported perfomance of "primary incident managementservices" and "Scene Safety Services" in the manner described and in the circumstances articulated.

Figures in Rand	2018	2017

42. Contingencies (continued)

The court has ordered the municipality to pay the costs of the applicants have since been given permission to proceed with the Class Action against the Respondents. The applicants have proposed a settlement negotiation which we have agreed on, we await a date of the meeting from the applicants. The court handed down cost order againsts the municipality. Applicants have also been given permission to proceed with the class action. The claim is for the amount of R10 500 000.00(This amount include ordered costs, class action should they proceed and our costs)

5. C. ZIMU

A lawsuit was received from the family attorneys for negligence on the side of the municipality and libility claim amounting to R1 500 000.00 A settlement was reached in the current year.

6. MAGOVENI BUSINESS TRUST

Magoveni Holdings claim that the municipality appointend them with a letter dated 06 May 2013 and entered into a service level agreement on the 15th May 2013 for a period of three three year where in Magoveni was to assist the municipality with the provision of credit control and debt collection support. The contract was terminated by the municipality. A Bill costs was proceeded with however the court file has been misplaced we are attempting to relocate it should we fail we will re-issue. the matter is set down for for 01 August 2017 to argue the second Exception. We await further instructions regarding freezing of the banking account of Magoveni. The claim is for the amount of R400 000.00

7. S. NGUBENI

This claim relates to Mr. S Ngubeni who were ordered to vacate a illegally occupied property. Eviction order granted against the illegal occupants, The claim is for the amount of R30 000.000

8. PE FAKUDE

The court ordered PE Fakude to pay the claimed amounts plus interest and taxed cost. We await further instruction for the municipality. We are proceeding to collect as per the court order. The claim is for the amount of R50 000.00

9. BJ MASHIFANE

We have proceeded with a writ to attach monies held by the municipality in favour of BJ Mashifane to satisfy the judgement that was granted against BJ Mashifane. We await an issued writ from court. We have proceeded with the writ to attach monies held by the municipality in favour of BJ Mashifane. The claim is for the aount of R15 000.

43. Related parties

Relationships

E.K Tshabalala	Municipal Manager
I.M Abdullah	Corporate Services Manager
L.O Sindane	Manager: Infrastructure, Planning and Social Development
M.M Ngwenya(Resigned 31 July 2017)	Chief Financial Officer
M. Mahlangu	Acting Chief Financial Officer (01 August 2017-
P.J Nhlabathi	Chief Financial Officer
M.L Mamaleka	Manager: Infrastructure, Planning and Social Development
Councillors	
T.D Ngwenya	Executive Mayor
N.A Mashele	Speaker
N.T Masha	Chief Whipp
S.S Mthimunye	Chairperson Section 80 Finance and Economic Affairs
T.E Scheffers	Chairperson Section 80 Corporate Services
M. Nkambula	Chairperson Section 80 Infrastructure,Pla
X.D Masina	Councillor
T.C Ngomane	Councillor
A.A Botha	Councillor
S.S Tshabalala	Councillor
D.M Scheffers	Councillor
S.I Skhosana	Councillor
R. Ndlovu	Councillor
T.J Duma	Councillor
M.P Ntuli	Councillor

44. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2017

2018

Statement of financial performance

2017

2018

Cash flow statement

2017

2018

Errors

No prior period errors occurred during the year under review.

[If retrospective restatement is impracticable for a particular prior period, disclose the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.]

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

44. Prior-year adjustments (continued)

The following prior period errors adjustments occurred:

45. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had an accumulated surplus (deficit) of 870,738,213 and that the municipality's total liabilities exceed its assets by 870,738,213.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note XX of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

46. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:
- nature of the event.
- estimation of its financial effect or a statement that such an estimation cannot be made.

47. Unauthorised expenditure

	2018	2017
Opening balnce	13,020,250	3,455,483
Current year additions	-	9,564,767
Approved or condoned by Council	(9,564,767)	-
Total waiting Council Approval	**3,455,483**	**13,020,250**

During the financial year ending 30 June 2018, no unauthorised expenditure was incurred.

48. Fruitless and wasteful expenditure

	2018	2017
Opening balance	16,000,863	10,528,261
Current year additions	5,020,504	5,472,602
Approved or condoned by Council	(10,024,221)	-
Total awaiting Council approval	**10,997,146**	**16,000,863**

Fruitless and wasterful exoenditure incurred as a result of long outsnding creditors which charges interest such as Eskom, Auditor General of South Africa as well as Munsoft.

49. Irregular expenditure

	2018	2017
Opening balance	66,288,927	65,875,235
Current year additions	394,539	413,692
Approved or condoned by Council	(10,294,983)	-
Total awaiting Council approval	**56,388,483**	**66,288,927**

50. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2018	2017
Audit fees payable	1,003,999	112,605

Notes to the Annual Financial Statements

Figures in Rand	2018	2017

50. Additional disclosure in terms of Municipal Finance Management Act (continued)

PAYE and UIF

PAYE	-	664,932

Pension and Medical Aid Deductions

Pension fund and medical aid	-	413,808

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2018:

30 June 2018	Outstanding less than 90 days	Outstanding more than 90 days	Total
X.D Masina	807	6,166	6,973
N.T Masha	1,407	27,974	29,381
J.T Duma	464	-	464
T.E Scheffers	2,058	24,625	26,683
S.S Tshabalala	1,673	644	2,317
S.I Skhosana	802	647	1,449
R. Ndlovu	916	16	932
D. Scheffers	1,573	6,455	8,028
	9,700	**66,527**	**76,227**

30 June 2017	Outstanding less than 90 days	Outstanding more than 90 days	Total
N.A Mashele	2,010	-	2,010
X.D Masina	6,651	-	6,651
B.S Mabuza	5,382	4,038	9,420
C.V Lello	27,989	22,497	50,486
C.N Nkosi	47,618	42,974	90,592
X.C Masina	110,343	107,451	217,794
	199,993	**176,960**	**376,953**

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Sub-heading